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United Stores Corporation

Report to Stockholders
Year Ending December 31, 1941

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WALTER B. RYAN, JR., *First Vice-President*

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GENERAL COUNSEL

SULLIVAN & CROMWELL.....NEW YORK, N. Y.

AUDITORS

PRICE, WATERHOUSE & CO.....NEW YORK, N. Y.

UNITED STORES CORPORATION

75 MONTGOMERY STREET

JERSEY CITY, N. J.

MARCH 25, 1942.

To the Stockholders of

UNITED STORES CORPORATION :

There are presented herewith the following financial statements of United Stores Corporation for the year ending December 31, 1941, with report of Messrs. Price, Waterhouse & Co. thereon :

Balance Sheet

Statement of Income and Expense

Statement of Surplus

For the information of the stockholders there are enclosed herewith copies of the Annual Report of McLellan Stores Company for the year ending January 31, 1942, and the Annual Report of McCrory Stores Corporation for the year ending December 31, 1941.

By order of the Board of Directors.

RANDOLPH CATLIN,

President.

UNITED STORES
BALANCE SHEET

| ASSETS | |
|--|-----------------|
| CURRENT ASSETS: | |
| Cash in bank and on hand | \$1,502,019.56 |
| Account receivable, at nominal amount | 1.00 |
| | <hr/> |
| OFFICE FURNITURE AND FIXTURES, at nominal amount | \$ 1,502,020.56 |
| | 1.00 |
| INVESTMENTS: | |
| At cost: | |
| McCrory Stores Corporation (Note 1)— | |
| 396,138 shares common stock, par \$1 (40% of total out- standing) | \$5,040,418.31 |
| McLellan Stores Company (Note 1)— | |
| 8,322 shares 6% cumulative convertible preferred stock, par \$100 (27.74% of total outstanding) | 4,521,099.39 |
| 380,098½ shares common stock, par \$1 (51.84% of total outstanding) | |
| At nominal amount: | |
| Tobacco Products Corporation of Delaware (Note 2)— | |
| 20,844 shares of capital stock, par \$10 (63.23% of total outstanding) | 1.00 |
| | <hr/> |
| | 9,561,518.70 |
| NOTE 1—Amounts based on quoted market prices at December 31, 1941:— | |
| McCrory Stores Corporation: | |
| Common stock | \$5,001,242.25 |
| McLellan Stores Company: | |
| 6% preferred stock | 853,005.00 |
| Common stock | 2,375,615.62 |
| | <hr/> |
| | \$8,229,862.87 |

NOTE 2—Tobacco Products Corporation of Delaware (dissolved on October 26, 1939) is being liquidated by a receiver appointed by the Delaware Court of Chancery. The receiver reported that the assets of that corporation in his hands, as of December 31, 1941, consisted of cash in the amount of \$39,546.89 (before payment of expenses of receivership, including costs of litigation instituted in 1941) and all of the stock of Tobacco Products Corporation of New Jersey.

The value of the stock of Tobacco Products Corporation of New Jersey is contingent upon the amount of taxes which may be payable by that corporation upon \$36,286,128.85 received from American Tobacco Company in commutation of a lease in January 1935. On June 7, 1937 the Treasury Department assessed \$4,967,890.40 as tax, penalty and interest against Tobacco Products Corporation of New Jersey and demanded and received, on account of the tax so claimed, that company's cash balance of \$725,638.27 which was its only asset. The Treasury Department has subsequently taken the position that certain inactive subsidiaries of Tobacco Products Corporation of New Jersey also realized a taxable gain upon the commutation of such lease, and that Tobacco Products Corporation of New Jersey is liable both for an alleged deficiency in its own income tax (asserted to be \$3,776,723.70 less the \$725,638.27 already received by the Treasury Department) and also, as transferee, for alleged deficiencies in income tax of such inactive subsidiaries (asserted to be \$4,541,315.46), together with interest. The amount of and persons liable for payment of any such taxes have not been finally determined. See also Note 4.

\$11,063,540.26

S CORPORATION

DECEMBER 31, 1941

LIABILITIES

CURRENT LIABILITIES:

| | | |
|---------------------------|-------------|--------------|
| Accounts payable | \$ 2,558.38 | |
| Unclaimed dividends | 2,148.10 | |
| Reserve for taxes | 40,226.29 | |
| | | \$ 44,932.77 |

CONTINGENT LIABILITIES (Notes 4 and 5)

CAPITAL STOCK AND CAPITAL SURPLUS:—

Capital stock:

\$6 cumulative convertible preferred stock, without par value, preferred over Class A and common as to \$115 per share plus accrued dividends on dissolution—(Note 3)—

Authorized—101,800 shares

Outstanding—95,695 shares stated at \$25 per share..... \$2,392,375.00

Note—Preferred dividends are in arrears \$12.00 per share at December 31, 1941, or a total of \$1,148,340.

Class A stock of \$5 par value, convertible, preferred over common as to \$4.20 per annum (cumulative to the extent earned in any fiscal year) and as to \$75 per share on dissolution (Note 3)—

Authorized—916,000 shares

Outstanding—915,979 shares 4,579,895.00

Common stock of 50¢ par value—

Authorized—1,522,200 shares including 1,011,674 shares reserved for conversion of preferred and Class A stocks

Outstanding, less 334½ shares in treasury—504,061½ shares 252,030.75

Capital surplus, per statement attached 2,916,272.60

10,140,573.35
878,034.14

EARNED SURPLUS SINCE JANUARY 1, 1937 (See Notes 1, 4 and 5)

NOTE 3—In the opinion of counsel neither the provisions of the Corporation's certificate of incorporation nor the statutes of Delaware create restrictions upon surplus growing out of the fact that upon involuntary liquidation the preferences of the preferred and Class A stocks exceed their respective stated or par values.

The aggregate amount to which the outstanding preferred stock is entitled in liquidation is \$12,153,265 and the aggregate amount to which the outstanding Class A stock is entitled in liquidation is \$68,698,425. The aggregate amount to which the outstanding preferred stock and Class A stock are entitled in liquidation exceeds the aggregate amount of capital represented by such stocks by \$73,879,420 (which excess is greater than the sum of the aggregate amount of capital represented by the common stock and the amount of the surplus of the Corporation).

NOTE 4—On account of the alleged deficiencies in income tax of Tobacco Products Corporation of New Jersey and certain of its inactive subsidiaries, arising out of the commutation of the lease referred to in Note 2, the Treasury Department has asserted liability against United Stores Corporation for \$3,051,085.43, plus interest, as transferee of the assets of Tobacco Products Corporation of New Jersey, and \$4,541,315.46, plus interest, as indirect transferee of the assets of such inactive subsidiaries. The amount, if any, of any such alleged deficiencies has not been finally determined and the matter of liability of United Stores Corporation on account thereof is now pending before the Board of Tax Appeals. While, in the opinion of counsel, United Stores Corporation is not liable for such alleged deficiencies, negotiations are being carried on in an attempt to reach a settlement of the liability asserted against it. No provision has been made in the above balance sheet for any amount which may be paid in any settlement or any liability which may be established.

The reserve for taxes includes a provision for Federal income tax for 1941, based on the Corporation's return as filed, which reflects a profit on the sale of McCrory Stores Corporation Preferred Stock as being substantially offset by a loss on the investment in Tobacco Products Corporation of Delaware. No provision has been made in the above balance sheet for any adjustment of the return as filed.

NOTE 5—United Stores Corporation is a defendant in certain actions for damages involving past transactions, which the corporation believes to be without merit. No provision has been made in the above balance sheet for any liability which may be established or any further legal expense which may be incurred in the defense of such actions.

\$11,063,540.26

UNITED STORES CORPORATION

STATEMENT OF INCOME AND EXPENSE FOR THE YEAR ENDING DECEMBER 31, 1941

Income :

| | |
|--------------------------|--------------|
| Dividends received | \$773,163.30 |
|--------------------------|--------------|

Expenses :

| | |
|--|-------------|
| Stock transfer expense | \$11,270.84 |
| Franchise and capital stock taxes | 15,594.51 |
| Administrative, general and legal expenses | 60,013.56 |

86,878.91

\$686,284.39

| | |
|--|-----------|
| Provision for Federal income tax | 32,000.00 |
|--|-----------|

| | |
|--|----------------------------|
| Net income for year ending December 31, 1941, carried to statement of surplus. | <u><u>\$654,284.39</u></u> |
|--|----------------------------|

UNITED STORES CORPORATION

STATEMENT OF SURPLUS FOR THE YEAR ENDING DECEMBER 31, 1941

Capital surplus:

| | |
|--|-----------------------|
| Balance at December 31, 1940 | \$2,916,270.62 |
| Excess of par value over cost of scrip representing 6 shares of common stock | 1.98 |
| Capital surplus at December 31, 1941, per balance sheet | <u>\$2,916,272.60</u> |

Earned surplus since January 1, 1937:—

| | |
|---|-----------------------|
| Balance at December 31, 1940 | \$ 248,672.00 |
| Net income for the year ending December 31, 1941, per statement attached | 654,284.39 |
| Profit on sale of preferred stock of McCrory Stores Corporation... \$1,060,602.00 | |
| Less—Reduction of investment in Tobacco Products Corporation of Delaware to nominal amount | 415,659.25 |
| | <u>644,942.75</u> |
| | <u>\$1,547,899.14</u> |
| Deduct: Dividend of \$7.00 per share paid in cash on December 26, 1941 on \$6 cumulative convertible preferred stock | 669,865.00 |
| Earned surplus at December 31, 1941, per balance sheet | <u>\$ 878,034.14</u> |

To the Board of Directors of

UNITED STORES CORPORATION:

We have examined the balance sheet of United Stores Corporation as at December 31, 1941, and the statements of income and expense and surplus for the year ending on that date. In connection therewith, we have examined accounting records of the Corporation and other supporting evidence, have obtained confirmation of the cash in bank, have counted the cash on hand, and have counted the securities with the exception of the shares of Tobacco Products Corporation of Delaware which have been surrendered to the receiver. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included all procedures which we considered necessary.

In our opinion, except as to the questions mentioned in the balance sheet Notes 4 and 5, on which we are unable to express an opinion, the accompanying balance sheet and related statements of income and expense and surplus present fairly the position of United Stores Corporation at December 31, 1941, and the results of its operations for the year ending on that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

56 Pine Street,
New York, N. Y.
March 19, 1942.

PRICE, WATERHOUSE & Co.

